

SERP SMARTS

What is a Supplemental Executive Retirement Plan (SERP)?

A SERP is a nonqualified plan created with Company money generally designed to provide benefits to a select group of executives or highly compensated employees. The objective of a SERP is typically to provide additional retirement income to employees above what can be offered by qualified plans.

There are 2 different options to consider when implementing a SERP:

Defined Benefit model

- The Company promises to pay a specified amount at a future point in time, which means that the Company bears the investment risk
- For example, the Company promises to pay \$20,000 per year for 20 years, or a percentage of final average pay, or 60% of the average compensation for final five years of employment
- The benefit is based on a “Replacement Ratio” or “Pension-like” formula

Defined Contribution model

- The Company promises to contribute a specified dollar amount to the SERP on behalf of the executive
 - » Contributions can be performance-based
- Executives direct how a contribution is allocated, which means that they bear the investment risk, which ultimately determines the amount of the future benefit

What are some advantages of implementing a SERP?

- Provides executives with supplemental retirement income in excess of qualified plan limits
- Are a valuable device for rewarding and retaining existing key executives
 - » Can also be used as a method of attracting and recruiting mid-career executives by replacing forfeited benefits
- Length of service requirements can be used to focus executives on continued long-term performance
- Enables the Company to avoid a majority of the administrative requirements and costs associated with qualified plans under ERISA
 - » Can be designed to accomplish specific corporate objectives
 - » Flexibility allows the plan to mirror overall Company compensation philosophy
- Informal funding can be acquired by the sponsoring Company to help offset costs

How can we help?

From consulting on plan design and informal funding to providing ongoing administration and day-to-day client service, we offer a comprehensive approach to managing SERP programs. For defined benefit (DB) SERPs in particular, we partner with Prudential to provide:

- Integrated administrative outsourcing
- Institutional investment management
- Participant communication and education
- Retirement plan strategies
- Plan conversions
- Actuarial consulting services
- Pension risk transfer and defined benefit closeout consultation

Prudential boasts 90 years of defined benefit plan experience, administers approximately 900 plans for more than 550 clients with 552,000+ participants¹, and is ranked the 7th largest in DB managed assets². Proven full-service capabilities include:

- Calculating the income statement and balance sheet impact
- Defining all SERP-related values for your 10-K disclosure
- Performing benefit calculations as participants retire
- Providing annual analysis of actual plan funding versus target liabilities and recommending contributions to meet corporate objectives
- Plan conversions
- Determining SERP benefit amount that is subject FICA and Medicare tax
- Preparing annual benefit statements for active participants

Whether your company is looking to find a detail-oriented administration resource or evaluate informal funding strategies, we have the expertise and experience to implement and provide expert oversight of SERPs that deliver benefits to both companies and executives alike.

¹as of 03/31/14

²Source: Pensions & Investments – May 2014